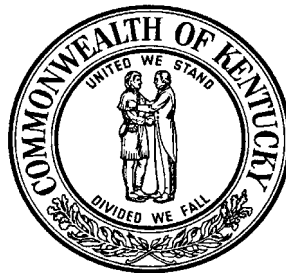


**REPORT OF THE AUDIT OF THE
MUHLENBERG COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES**

May 21, 2004



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Rodney Kirtley, Muhlenberg County Judge/Executive
Honorable Jerry D. Mayhugh, Muhlenberg County Sheriff
Members of the Muhlenberg County Fiscal Court

The enclosed report prepared by Mountjoy & Bressler, LLP, Certified Public Accountants, presents the Muhlenberg County Sheriff's Settlement - 2003 Taxes as of May 21, 2004.

We engaged Mountjoy & Bressler, LLP to perform the financial audit of this statement. We worked closely with the firm during our report review process; Mountjoy & Bressler, LLP evaluated the Muhlenberg County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
MUHLENBERG COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES

May 21, 2004

Mountjoy & Bressler, LLP has completed the audit of the Sheriff's Settlement - 2003 Taxes for Muhlenberg County Sheriff as of May 21, 2004. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$7,789,163 for the districts for 2003 taxes, retaining commissions of \$263,743 to operate the Sheriff's office. The Sheriff distributed taxes of \$7,504,462 to the districts for 2003 Taxes. Taxes of \$68 are due to the districts from the Sheriff and refunds of \$529 are due to the Sheriff from the taxing districts.

Comment:

- The Sheriff's Office Lacks An Appropriate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
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Honorable Jerry D. Mayhugh, Muhlenberg County Sheriff
Members of the Muhlenberg County Fiscal Court

Independent Auditor's Report

We have audited the Muhlenberg County Sheriff's Settlement - 2003 Taxes as of May 21, 2004. This tax settlement is the responsibility of the Muhlenberg County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Muhlenberg County Sheriff's taxes charged, credited, and paid as of May 21, 2004, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Rodney Kirtley, Muhlenberg County Judge/Executive
Honorable Jerry, D. Mayhugh, Muhlenberg County Sheriff
Members of the Muhlenberg County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated June 15, 2005, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks An Appropriate Segregation Of Duties

Respectfully submitted,

Mountjoy & Bressler, LLP.

Mountjoy & Bressler, LLP

Audit fieldwork completed -
June 15, 2005

MUHLENBERG COUNTY
JERRY D. MAYHUGH, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2003 TAXES

May 21, 2004

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 628,279	\$ 807,950	\$ 3,321,855	\$ 888,947
Tangible Personal Property	67,459	104,488	364,426	257,958
Intangible Personal Property				90,842
Fire Protection	1,399			
Increases Through Exonerations	129	235	687	1,127
Franchise Corporation	256,506	227,540	875,419	
Additional Billings	2,057	2,342	11,004	3,044
Unmined Coal - 2002 Taxes	2,103	2,519	11,361	3,086
Unmined Coal - 2003 Taxes	17,042	19,979	90,106	24,113
Oil and Gas Property Taxes	4,657	5,459	24,622	6,589
Limestone, Sand, and Mineral Reserves	139	162	733	196
Penalties	5,585	7,010	28,986	8,222
Adjusted to Sheriff's Receipt	(1)	(3)	(10)	3
Gross Chargeable to Sheriff	<u>\$ 985,354</u>	<u>\$ 1,177,681</u>	<u>\$ 4,729,189</u>	<u>\$ 1,284,127</u>
<u>Credits</u>				
Exonerations	\$ 6,199	\$ 8,091	\$ 32,803	\$ 9,017
Discounts	13,111	14,719	59,824	20,645
Delinquents:				
Real Estate	22,518	29,576	119,056	31,860
Tangible Personal Property	1,266	1,960	6,837	6,190
Unmined Coal - 2002 Taxes	349	418	1,887	512
Unmined Coal - 2003 Taxes	22	26	117	31
Waived Penalty - Unmined Coal	17	20	90	26
Total Credits	<u>\$ 43,482</u>	<u>\$ 54,810</u>	<u>\$ 220,614</u>	<u>\$ 68,282</u>
Taxes Collected	\$ 941,872	\$ 1,122,871	\$ 4,508,575	\$ 1,215,845
Less: Commissions *	<u>40,317</u>	<u>47,479</u>	<u>123,986</u>	<u>51,961</u>
Taxes Due	\$ 901,555	\$ 1,075,392	\$ 4,384,589	\$ 1,163,884
Taxes Paid	899,212	1,072,371	4,373,132	1,159,747
Refunds (Current and Prior Year)	<u>2,386</u>	<u>2,979</u>	<u>11,564</u>	<u>4,490</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ (43)</u>	<u>\$ 42</u>	<u>\$ (107)</u>	<u>\$ (353)</u>

* and ** See Next Page

The accompanying notes are an integral part of this financial statement.

MUHLENBERG COUNTY
 JERRY D. MAYHUGH, COUNTY SHERIFF
 SHERIFF'S SETTLEMENT - 2003 TAXES
 May 21, 2004
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	3,263,099
2.75% on	\$	4,508,575
1% on	\$	7,489

** Special Taxing Districts:

Library District	\$	62
Health District		(7)
Extension District		(6)
Soil Conservation		(4)
Airport		(4)
Pond Creek Watershed		6
Mud River Watershed		(4)
East Pond Watershed		(1)
		<hr/>
Due Districts	\$	<u>42</u>

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENT

May 21, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of May 21, 2004 the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the Sheriff's agent in the Sheriff's name.

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENT
May 21, 2004
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2003. Property taxes were billed to finance governmental services for the year ended June 30, 2004. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 5, 2003 through May 21, 2004.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2004. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 25, 2004 through August 20, 2004.

Note 4. Interest Income

The Muhlenberg County Sheriff earned \$1,221 as interest income on 2003 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Muhlenberg County Sheriff collected \$28,581 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Muhlenberg County Sheriff collected \$1,926 of advertising costs and \$2,775 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

COMMENT AND RECOMMENDATION

MUHLENBERG COUNTY
JERRY D. MAYHUGH, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

As of May 21, 2004

STATE LAWS AND REGULATIONS:

None.

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks An Appropriate Segregation Of Duties

Due to the entity's diversity of official operations, small staff size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. The Sheriff has primarily assigned one deputy to perform all of the accounting functions of the office. Other employees do assist in tax collections, but the assigned deputy prepares deposits, writes and signs checks and performs bank reconciliations. We recommend that the Sheriff assign another employee to periodically review this work in order to establish compensating controls to offset this internal control weakness. Examples of compensating controls are 1) having another employee compare checks made payable to the taxing districts to monthly reports and cash receipts and cash disbursements ledgers; 2) requiring dual signatures on all disbursement checks; 3) performing surprise reconciliations of daily deposits to computer-generated daily collection reports and; 4) having another employee independently review the bank reconciliations.

Sheriff's Response:

None.

PRIOR YEAR:

The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Adequate Collateral Of \$768,438 To Protect Deposits

This issue of noncompliance has been corrected.

Lacks Adequate Segregation Of Duties

This issue has been repeated in the current year's report.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Rodney Kirtley, Muhlenberg County Judge/Executive
Honorable Jerry D. Mayhugh, Muhlenberg County Sheriff
Members of the Muhlenberg County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Muhlenberg County Sheriff's Settlement - 2003 Taxes as of May 21, 2004, and have issued our report thereon dated June 15, 2005. The County Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Muhlenberg County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- The Sheriff's Office Lacks An Appropriate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Muhlenberg County Sheriff's Settlement -2003 Taxes as of May 21, 2004 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

Mountjoy & Bressler, LLP.

Mountjoy & Bressler, LLP

Audit fieldwork completed -
June 15, 2005

